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INCOME SECURITY PROGRAMS: PAST, PRESENT AND FUTURE

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PRESIDENT'S COMMISSION ON PENSION POLICY

INCOME SECURITY PROGRAMS: PAST, PRESENT AND FUTURE

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President's Commission on Pension
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FOREWARD

This paper, prepared by former Social Security Commissioner Stanford G. Ross, provides an overview and critique of the development of income security programs in the United States in an attempt to identify key issues and to suggest a framework for developing solutions.

The term "income security" is used broadly to mean all public and private programs that pay benefits in cash or in kind to support the incomes of Americans. Although particular emphasis is placed on income security programs for retirement, other income security programs that interact with retirement programs are taken into account. The viewpoint of the paper is that a comprehensive approach to income security policy is vital to future progress.

The United States has today a massive income security system that represents overall a remarkable accomplishment in social justice. At the same time, the myriad programs are so fragmented and skewed to benefit special interests that the system as a whole is deficient in basic respects. Total public and private expenditures for income security must be coordinated so that they are used to their best advantage. To do that, we must focus public attention upon the interrelationships between various income security programs that have hitherto been considered in relative isolation of one another. The ultimate issue is whether political forces in this country will coalesce to face this challenge of creating a coherent income security system by making needed adjustments in its various components.

The present income security sector in this country is vast and expensive. Total public and private expenditures, in cash and in kind, currently exceed $500 billion dollars--about 18 percent of GNP. One out of every four Americans depends on income security payments as a major source of income. Virtually every American will be affected by the system, either now or in the future. Whereas half a century ago, nine out of ten elderly persons had no pension, either public or private, today, almost all of the elderly are eligible for social security and/or some other form of public or private pension.

Similarly, if we take the official poverty line as a measure, the proportion of the population in poverty, and especially the proportion of the elderly who are poor, have both declined dramatically. Today the poor, the disabled, and the elderly rely upon some basic level of income support. The current system of cash payments and in-kind benefits to individuals helps stabilize our society and our economy during periods of cyclical downturn and alleviates the kind of extreme hardship that characterized our society in the past.

But the present system has numerous deficiencies. Almost 15 percent of the elderly remain below the official poverty line. Millions more hover just above that controversial line of demarcation, so a high percentage of the elderly simply do not have adequate benefits. Yet at the same time, others receive windfall benefits which they do not deserve or need. In short, the equities of the present system are dubious at best.

In this paper, Stanford Ross points out that the administration of and policymaking for the various components of the income security system are extremely fragmented both among the executive and the legislative branches of government. The legal provisions and administrative guidelines for these various programs are traordinarily complex, with the result that the interactions among the different programs are rarely understood. In this atmosphere of fragmented decision-making, Ross argues, special interests thrive and are able to exert very strong leverage, because the broad national interest is obscured by the more immediate interests of specific groups of program beneficiaries and the bureaucracies that serve them.

Ross finds that the most serious deficiency of all is that the philosophy used to develop and expand our income security system simply does not conform to current realities. Official statements of philosophy have repeatedly emphasized that social security, the basic element of income security, is to be only a floor of protection supplemented by private pensions and personal savings. But, in fact, social security has expanded greatly beyond those modest goals, especially in the past 15 years, and now dominates the income security system, leaving private pensions and private savings to play a decidedly secondary role at best.

Many retirees today find themselves disappointed and frustrated. With private pensions and private savings lacking, and with the future of private pensions and savings seriously threatened by the spectre of continuous high inflation, it is reasonable to expect continued pressures to expand social security, regardless of the economic and social consequences.

Unless concerted efforts are made to develop alternative sources of retirement income, including private pensions, savings, earned income, and humane welfare programs, the role of social security will become even more dominant.

The pressures for reform of income security programs are mounting as the public becomes more aware of their deficiencies. In a system where fragmentation is the rule, and coordination exists to only a limited extent, inequities in pension income abound and increasingly disturb the public. Sharp variations in retirement income are found, depending upon age, sex, occupation, work history, and other factors. Some people do extremely well in this system; others fare miserably. Often the differential treatment has no apparent justification.

Yet the public lacks a thorough understanding of who benefits from the present system, who pays for it, and why. According to Ross, that is not a sign of public ignorance. Rather it is a reflection of the fact that our income security system lacks overall policy and priorities. No institutional mechanisms exist for the articulation and resolution of competing considerations under different programs. Ross argues that while ad hoc commissions are helpful in identifying issues, they are only a partial and temporary remedy. Their jurisdictions are usually restricted and their roles limited. All too often, when the commissions expire, and there is a continuation of business as usual by special interest forces.

Meanwhile, public attitudes are becoming increasingly important to the very process of reform. In this paper, Ross finds that we have reached

a unique position where programs touching the whole mass of American citizens have to be defined, evaluated and reformed in the context of a democratic system. If the income security system is to be reformed, public support will certainly be required. But in the public eye, adjustments to these programs are also threatening, because they affect the livelihood of present and future beneficiaries.

In the face of these current pressures, the income security system has reached a policy impasse. We are uncertain as to what effects income security financing and expenditures are having on the national economy. Many potentially explosive income security problems are not being addressed; they will certainly grow worse with time. For example, social security financing was addressed in 1977, when massive tax increases were legislated and future benefits reduced. Yet, already, three years later, the short-term financing of social security requires further legislative action. And, the short-term financing problems pale in significance in comparison to the long-term deficit facing the social security system in the next century.

Ross concludes that we are approaching a policy impasse in other areas, as well. Welfare reform has been snarled for the past decade. The relation of our cash benefit programs to national health planning is barely perceived. Integration of social security with other public programs, like the federal retirement system, has been recommended for the past 25 years without result. Special pension systems, like the military pension system, have resisted reform, despite the recommendations of various study groups. Coordination among private employee plans is virtually

nonexistent, leaving many workers without vested benefits or with benefits that are very small.

This paper discusses a number of important and very controversial issues. The President's Commission on Pension Policy welcomes and encourages comments on this paper, both for the benefit of its Commissioners and for the accuracy of its final report.

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PREFACE

The purpose of this paper is to provide an overview of the development of the income security sector in the United States, which includes all public and private programs that pay benefits in cash or in kind to support the incomes of Americans who are not working or whose earnings are inadequate. It is very important to take into account how retirement programs interact with other income security programs. For example, disability insurance has developed as a form of income protection which closely parallels the retirement system and which, in some instances, functions as a kind of early retirement program. Conversely, many of the claimants of social security's early retirement benefits state that they have medical problems which, although they do not meet social security's definition of total disability, nevertheless impede their ability to find and hold work. Similarly, high rates of unemployment and the limitations of unemployment compensation programs influence the numbers of those who apply for early retirement benefits as well as those who apply for disability benefits. 1/

Indeed, the income security viewpoint of this paper was specifically chosen in order to focus attention upon the interrelationships among various income security programs that have heretofore been generally considered in relative isolation of one another. Changes in our economy and society over the recent past, and growing evidence of endemic difficulties in the management of all income security programs, have demonstrated the urgency of developing new policies that systematize our approaches. In the present era of scarce resources,

total public and private expenditures for income security must be coordinated closely so that they are used to their best advantage. Thus, any recommendations for change in retirement programs should be planned and evaluated in the context of all the other income security programs.

I. DEVELOPMENT OF INCOME SECURITY SECTOR IN THE UNITED STATES

The development of an income security sector in our nation is recent, essentially dating from the passage of the Social Security Act of 1935. Before discussing that important law and its subsequent development, it is helpful to summarize the conditions that preceded its enactment.

ORIGINS OF THE PRESENT PROGRAMS

On the eve of the Great Depression that began in 1929, the United States had no national income security policies or programs, except for special groups such as veterans and the military. In general, there was little organized effort to assure economic security for the aged, dependent children, and other vulnerable groups in the society. State and local government had made some strides, but those sources of income security that did exist were primarily the result of private efforts. The society largely looked to self-help by individuals and their families, a limited number of private pension plans, and private charities.

Various reasons have been advanced for the limited development of public income security programs, in contrast to the much more ambitious steps taken by European countries. Historians have traditionally cited: the "rugged individualism" that distinguished the American character; the predominantly agrarian distribution of our population during the nineteenth century; an indigenous mistrust of government; and laissez-faire business attitudes. In this general historical and cultural context, economic dependency was more often

viewed as the fault of the individual than as a product of economic circumstances. All of these attitudes inhibited the development of a national, governmental approach to the problem of economic in security.

And yet, a shift in public attitudes was taking place in the early part of the twentieth century, even if the results were slow to be forthcoming. Gradually a process developed in which Americans tended to reconcile the traditional precepts of self-reliance with the observed need for some collective action to support needy individuals in a modern, industrialized society. 2/ A number of practical steps were taken to assist the vulnerable. In 1911, for example, the first state law was passed providing for cash assistance to mothers of children whose fathers had died. By the early 1930s, nearly all states had laws authorizing such assistance, although less than half of the local communities empowered to provide such relief actually did so. By the early 1930s, half the states also had laws for aid to the blind, and 18 states had laws in 1931 providing for pensions to needy old people. 3/

During the early decades of the nineteenth century, both the states and the federal government began to recognize the need for broadly-based social insurance protections rather than means-based programs. Thus, by 1930, all but four states had workmen's compensation laws, and harbor workers were protected under federal legislation. By 1930, the federal government and many states had also adopted retirement programs for their employees. Nevertheless, aid to the needy provided from local funds by villages, towns and counties was still the primary form of public income maintenance -- the legacy of "poor laws" that characterized our welfare system up until the 1930s.

Thus, on the eve of the Great Depression, the United States had begun to develop limited pieces of an income security system. But very large numbers of the elderly continued to work in the labor market, and the bulk of support for older persons and needy persons came from families and private resources. No broadly conceived national pension policies or plans existed. Employee benefit plans were in a growing but fragile stage, and public employees generally had better coverage than employees in the private sector. States were increasingly recognizing a social responsibility for public assistance. The social insurance movement had registered some early gains in workmen's compensation, and it was gathering momentum toward more ambitious objectives, like health insurance and old-age insurance. And then suddenly, the U.S. economy failed -- more severely than it ever had before, or has since.

The Great Depression Shows the Need

The Great Depression demonstrated irrefutably the need in a modern, industrialized society for national economic security programs that could support the broad masses of the public. Suffice it to say that the conditions it produced were dire: In 1933, one-third of the nonagricultural labor force was out of work, and the average wages of those who did have work fell sharply. Private charities could not honor all the requests for help, and much of the limited assets that working people had accumulated were either lost amidst the economic collapse, or depleted. By the fall of 1934, more than 18 million people -- or one out of seven Americans -- received emergency relief. 4/ The amount of individual hardship was gigantic.

In the short term, the depression had devastating effects upon the developing income security programs and revealed their complete inadequacy. Basically, the high unemployment created overwhelming numbers of persons who needed help because they could no longer support themselves and their families through employment. The extraordinary demands upon many of the nascent income security programs that had been developing over the past two or three decades led to their financial collapse.

Many private pension plans, for example, were not backed by specific financial reserves or administered in accordance with actuarial concepts. An estimated two out of three pension plans had no reserves whatsoever, and of the one-third that did have reserves, less than half had any trust funds; the rest were "balance sheet reserves" on the books of the companies. Union welfare and pension plans were also not adequately funded because they depended on dues payments from union members. So the depression that began with the stock market crash of 1929 ruined many of the company and union pension plans. Their aggregate benefit payments declined by two-thirds in the decade of the 1930s.

Another illustration that is suggestive is the railroad industry's pension plans, which had such severe financial problems that they turned to the federal government for help. Similarly, beleaguered state and local governments made a desperate plea for assistance from the federal government. But the desire for federal government intervention went far beyond these specific demands.

The "elemental shock" to American society provided by the depression gave rise to strong public pressure for national income security programs to benefit everyone. 5/ And the popular mood found persuasive spokesmen who would be a

prod for a reluctant officialdom. In 1934, a California physician named Francis Townsend began promoting the so-called Townsend Plan -- for the government to pay $200 a month to every retired man and woman over 60. The plan was to be financed by a new general sales tax. And the beneficiaries were to spend their full payment within a month after receiving it. Dr. Townsend reputedly amassed 15 million signatures in support of his plan. 6/

That was not the only plan around, though. The popular Louisiana Senator, Huey Long, launched a "Share Our Wealth Society". Its slogan: "Every Man a King". Huey Long proposed that the federal government give every family a $5,000 homestead, a guaranteed annual income of $2,000-$3,000, a college education for all able youth, sizable bonuses for veterans, and adequate old-age pensions. 7/

Against this background of radical schemes, attracting millions of Americans toward a potential mass movement, President Roosevelt, who was himself an advocate of social insurance, created a Committee on Economic Security to study the situation and make recommendations on income security. The challenge presented was clear. The country had been moving slowly toward social insurance as a practical solution for some of the problems of a rapidly industrializing society. Then the Great Depression hastened its acceptance by causing the collapse of the existing mechanisms and by intensifying the need for regular, continuous income support. And the popular demands for assistance attracted the serious attention of the politicians in the country, who were persuaded of the political necessity for action in part because of the grass-roots popularity of the radical Townsend Plan.

The country was crying out for solutions. And partly by design, partly by default, it fell to the federal government to act. By design, because the New Deal philosophy boldly postulated the need for direct federal intervention to alleviate the problems in the private sector. And by default, because neither the states, nor the local governments, nor the private sector, really had the financial capacity to underwrite the needed effort. The conclusion, it now seems, was inevitable: There was a need for federally-supported income security programs that would benefit the entire population; and that was the historical context for the Social Security Act of 1935.

The Social Security Act of 1935: Laying the Foundation

The Social Security Act of 1935 is without any doubt the single most important piece of income security legislation in our history. It took a comprehensive approach toward the problems of economic insecurity. It laid the foundation for all future development.

The Act established or provided for federal financial participation in programs in several major areas: old-age contributory insurance; federal-state unemployment insurance programs; federally-aided public assistance; maternal and child health; and child welfare programs. Its provisions for federal grants to the states for public health activities laid the basis for modern public health programs in the United States. The original Social Security Act also increased substantially the federal grants to the states for vocational rehabilitation programs authorized under a 1920 Act, and it placed them on a permanent basis.

What was new, and even radical, about the Social Security Act was the primary importance given to the federal role. This concept marked a permanent change in the direction of public policy.

The involvement of the individual and state and local governments was not novel. Their continued inclusion in the philosophy of social security reflected existing realities and political compromises. The new radical role of federal involvement was made more acceptable by such concessions, which also helped to answer the formidable legal uncertainties about the constitutional legitimacy of legislation creating an expansive federal role. Constitutional fears influenced the consideration of many of the social insurance issues; and the final act deliberately separated the tax imposed for old-age insurance from the benefits authorized. After the Supreme Court upheld the constitutionality of the Act in 1937, legal inhibitions to more dramatic change were removed. Administrators began to sell the old-age provisions to the public as an "insurance" program with great potential for future benefits. 8/

For political and legal reasons, the Social Security Act created a program with a very equivocal message. Many have observed that the genius of the act was that it combined a private insurance principle based on the value of individual initiative with the feature of federal, state and local government participation in social welfare. It is important to emphasize that this ideology essentially reflected a political compromise -- a reconciliation of conflicting philosophies that were competing against each other at the time. The function performed was to take the truly significant change in public policy that the Act represented and to make it compatible with the laissez-faire business ethic and the traditional notion of individual responsibility. The expressed concern for

"adequacy" and "equity" tried to reconcile the more radical advocates of social insurance in our country, who viewed the role of social insurance as a mechanism to redistribute income, with the more conservative elements who opposed such directions.

Political concerns of the day also influenced the Act in other important ways. For example, President Franklin D. Roosevelt is quoted as having said, in response to complaints about the regressive nature of the payroll tax:

> I guess you're right on the economics, but those taxes were never a problem of economics. They are politics all the way through. We put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions and their unemployment benefits. With those taxes in there, no damn politician can every scrap my social security program. 9/

Political concerns thus shaped the way benefits were computed, the way they were financed, and the way they were presented to the public. Political compromises also restricted the coverage: Federal employees were excluded, railway workers were given a separate system.

The bill was researched by the Committee on Economic Security and then was prepared and enacted all in a little over a year, from June 1934 to August 1935. Despite the need to address immediate problems, the Committee on Economic Security was also concerned about the long-term aging of the American population that had begun in the nineteenth century and continued into the twentieth. Facing these prospects of an aging population, the planners reasoned that the burden of old-age dependency on future generations would be too great unless long-term action was taken. The contributory old-age insurance was conceived as a long-term solution to build up a minimum floor of

income protection that would prevent dependency in old age. Thus, in the Supreme Court decision of 1937, Justice Cardozo explained that the hope behind this legislation was that men and women would not find themselves in the poor house at journey's end.

The founders were explicit that the Social Security Act was to be expanded and improved over the years. They also foresaw the eventual introduction of general revenues, as a government contribution to the system, when an increasing number of elderly beneficiaries would overburden the contributory mechanism based on an employee-employer payroll tax. 10/

In fact, the expansion came rapidly. The Supreme Court resolved the constitutional issues in 1937, thereby providing a clear legal foundation for the program. The economic depression proved to be unusually persistent. And with the idea already before the public that social security was destined to expand, the first giant step was taken in the legislative amendments of 1939.

EXPANSION AND DOMINANCE OF SOCIAL SECURITY PROGRAMS

The Amendments of 1939: Liberalizing the Initial Policies

The major goal of the 1939 Amendments was to pay benefits sooner and in larger amounts. In effect, the noncontributory portion of social insurance benefits was increased, instead of resorting to welfare. The substantial welfare element in the 1939 reform was disguised in the new benefit formula. Thus, between the 1935 Act and the first payment of monthly benefits in 1940, a basic change in philosophy took place.

The political background to the 1939 Amendments was decisive. The Townsend Plan continued to have popular appeal; and influential social reformers were arguing for the need to increase the degree of income redistribution under social security. The pressures for liberalization overwhelmed the conservative restraints which had diminished since 1935.

Specifically, the Social Security Amendments of 1939 did the following:

1) advanced from 1942 to 1940 the payment of monthly benefits;

2) liberalized the eligibility requirements to permit those who attained age 65 to qualify for benefits in 1940 or shortly thereafter;

3) increased the average benefits payable in the early years of the program by using the average monthly wage instead of total accumulated wages;

4) extended protection to the aged wife and dependent children of beneficiaries and to certain survivors of insured workers;

5) created a federal old-age and survivors insurance trust fund supervised by a Board of Trustees;

6) held the payroll tax for 1940-42 at the previously legislated rates.

The particular route that was chosen to pay benefits sooner and in larger amounts had enormous implications for the future. First, the benefit formula, which paid somewhat higher benefits to lower-paid workers under the 1935 Act, was much more heavily weighted in the 1939 Amendments to pay larger benefits to workers with low earnings. That accomplished the objective of paying out larger benefits. But it would create enormous equity considerations among subsequent generations.

Another way of increasing the protection of social security and paying larger benefits sooner was to pay them to dependents and survivors. Many people mistakenly believe that family protection was simply added on. In fact, benefits were restructured. In the short term, both single and married people got higher benefits than they would have had under the 1935 law. But 20-40 years in the future, the restructuring meant that single workers would get substantially less in benefits than they would have received under the 1935 law, while workers with one dependent got slightly larger benefits than the single worker would have gotten under the original Act. 11/ In other words, the route chosen took away long-term benefits from the single worker and paid them to the married worker. That decision, too, would have enormous equity implications later on, especially for the situation confronting working women and two-earner couples.

The funding change under the 1939 Amendments was also very significant. The original Social Security Act provided that payment of benefits was to be made from the old-age reserve account established in the U.S. Treasury. The 1935 Act authorized appropriating an annual "premium" for transfer to the old-age reserve. Thus, Congress made appropriations to the old-age reserve account which were approximately equal to payroll tax receipts.

This funding arrangement through the Treasury was changed by the 1939 Amendments, which created a separate trust fund for old-age and survivors insurance managed by the Board of Trustees. This change has been interpreted as liberalizing the financial management of the reserve fund. 12/ The creation of a trust fund, however, also lent conservative respectability to the program and reinforced the insurance aspect in the public mind. On a more practical

level, though, it removed the annual involvement of Congress through the appropriations process and established the off-budget arrangement that prevailed for social security until 1969.

To sum up, the 1939 Amendments realized a large number of the goals of the social insurance advocates. The 1935 Act, hastily drafted and rapidly enacted, had been calmly and deliberately modified in a major liberalization. Further, in the Fifth Annual Report of the Social Security Board for 1940, the seeds of further liberalizations were already sown. That report concluded its discussion with a bold agenda for the future:

> Future developments doubtless will include improvements in administration of the present provisions. It may be hoped that they will also include more nearly complete protection, such as insurance against wage losses occasioned by permanent disability. Further progress in the program lies in the extension of protection to groups now excluded and in the coordination of this program with other public programs, to provide for all workers and their families a bulwark against the risks of long-continued or permanent loss of earnings by reason of disability, old age, or death. 13/

Stability of Social Security During the 1940s

During the 1940s, no major benefit expansions took place under social security; and previously scheduled payroll tax increases were repeatedly postponed by Congress. Public effort was focused on the World War II effort; the principal income security measures were for temporary wartime programs.

Although there was no new federal legislation of a permanent nature, various formal statements were made by the President and by the Social Security Board stating that their goal was to expand and improve social security. In its annual reports, especially those of 1942 and 1943, the Social Security Board

continued to sketch the kind of expansion it envisaged, including medical insurance and disability insurance.

The time was not ripe for legislative action during the war. The wartime years were significant, however, because the Social Security Board was able to defend the contributory social insurance system against serious proposals to modify or abandon old-age and survivors' insurance in favor of either a universal pension plan funded by income taxes or a "double decker" plan combining a universal pension with an earnings-related supplementary benefit. The recommended methods of financing the double decker included a "value-added tax" and an old-age income tax. 15/

The proposals for a universal pension and the double decker reflected growing concern that in the early years of the OASI program, retirement benefits payable were far in excess of the value of retired workers contributions. These were largely unearned benefits to those fortunate enough to have worked in insured employment for the required minimum period, but denied to citizens who had not been so lucky. The rationale for some kind of a universal pension was to distribute benefits more equitably. But the Social Security Board believed the disadvantages of such a plan outweighed the advantages. They worried, in particular, that the provision of the universal benefit would erode the contributory social insurance system, and might discourage workers from paying payroll taxes because they might believe they were not getting their money's worth. 16/

After the war, President Truman and the Social Security Board continued to emphasize in their public statements the need to expand social security and

improve its coverage by adding disability and health insurance protection. But the political climate at that time was not receptive. In fact, the Republican majority in Congress managed to introduce in 1948 a somewhat more restrictive definition of a covered employee. And the Democrats successfuly turned that social security action into a campaign issue in the 1948 elections. Those elections elected a Democratic majority to Congress, with the apparent mandate to expand social security. 17/

Renewed Expansion In 1950

The Social Security Amendments of 1950 resumed the expansion of social security that had begun in 1939 and had been advocated by two Democratic presidents and consistently recommended by the administrators of the social security system. The 1950 Amendments produced an impressive expansion.

Eligibility requirements were greatly liberalized, meaning that many thousands of persons already retired and receiving old-age assistance, as well as those retiring after the Amendments became effective, could now qualify for retirement benefits. About 8 million workers were brought under OASI on a compulsory basis, and another 2.5 million could be covered on an optional basis.

Benefits were substantially increased, and the benefit formula was more heavily weighted to low-paid workers. Benefits rose on the average by about 77 percent, with a 100 percent increase at the lowest income levels and a 50 percent increase at the highest income bracket. 18/ The minimum benefit was doubled. Federal matching grants under the public assistance provisions were liberalized to include aid to the permanently and totally disabled. But the real

goal was to diminish the role of welfare. By February 1951, the number of persons receiving retirement insurance benefits exceeded, for the first time, the number of those receiving old-age assistance.

Yet the full agenda of expanded social security still had not been achieved. Coverage of occupations was still not as complete as desired. And the two big items of disability insurance and health insurance were still not realized. The pursuit of these and other goals provided the impetus for further social security changes in the 1950s, 1960s and 1970s.

Accelerated Expansion During 1950s, 1960s and '70s

There was another factor that was probably even more important to the expansion of social security than the political acumen of the social security advocates: the favorable economic circumstances that characterized the United States in these years made liberal social programs both feasible and attractive. The post-war American economy enjoyed an extraordinary boom in the years 1945-65. Wages were rising at an average of more than 5 percent annually. Inflation was modest (1.8 percent average annual rate). An expanding technological base helped to fuel a strong and steady growth in productivity.

Indeed, many serious observers believed that the United States was approaching a day when it would have enormous prosperity. Some distinguished economists foresaw a new economic era, in which the primary concern would not be managing scarce resources, but rather, an era in which the central economic problem would be dealing with abundance. The expanding role of leisure suggested that, given the future progress of technology and the decline in the

need for physical labor, work might become a privilege and not an obligation. The "problem of abundance", as it was then called, gave social reformers and concerned citizens the justification to argue convincingly that there was a need to share the fruits of this economic growth with the poor, the disabled, and the elderly.

In the 1960s, social security spokespersons began revising the idea that social security should provide only minimum economic security. As early as 1960, published statements suggested the need to consider allowing the elderly to share more fully in the economic growth of the nation, possibly through some form of indexation that would tie social security benefits to the general prosperity. 19/ Thus, in the 1950s and 1960s, the atmosphere was unusually favorable for realizing the traditional agenda of social security expansion.

The extension of coverage. -- Compulsory coverage was extended to regularly employed farm and domestic workers (1950); railroad workers with less than 10 years of service (1951); farm self-employed and professional self-employed except lawyers, dentists, doctors and other medical groups (1954); members of the uniformed services and the remaining non-covered self-employed, except physicians (1956); physicians (1965); and ministers (1967).

On an elective basis, coverage for state and local government employees was made available in 1950 for those not under a retirement system, and in 1954, those state and local government employees under retirement systems could opt for social security, with modifications added for firemen and policemen in 1956.

In other words, the old drive to extend coverage to different occupations really was accomplished in the period 1950-56, with additional, smaller extensions in 1965 and 1967. Thus, today, more than 9 out of 10 jobs are either in covered employment or eligible for coverage.

Expanding the scope of protection. -- The scope of social security protection also was broadened considerably in the 1950s and 1960s. Whole new categories of social insurance benefits were added, and the eligibility requirements for many other benefits were considerably liberalized.

One major addition was legislated in 1956: monthly disability benefits to permanently and totally disabled workers age 50-64. This had been a goal of the founders of social security ever since the 1930s and '40s. Its realization is a classic demonstration of how incremental changes could be used to produce rather dramatic eventual expansions. A disability freeze provision was added in 1954 to protect the rights of disabled persons by excluding those years of total disability from the computation of their retirement benefits. Two years later, monthly benefits were added, but only for older workers. In 1956, benefits were also extended to children (age 18 or over) of retired or disabled workers, if the disability began before age 18. In 1958, benefits for dependents of disabled workers were added, on the same basis as for dependents of retired beneficiaries. In 1960, monthly disability insurance benefits were made payable to workers of all ages and their dependents. Then in 1965, the disability definition was liberalized. In 1972, the age ceiling for disabled adult children was raised from 18 to 22.

As the disability program was introduced and expanded, steps were also taken to offer retirement at lower ages. In 1956, the retirement age for widows was lowered to age 62, and reduced benefits for wives and women workers were made available at age 62. Then in 1961, in response to the recession and high unemployment, reduced early retirement benefits were extended to male workers age 62.

The final major piece of program expansion came in 1965-67. Medicare hospital and medical insurance was added in 1965. Special, transitional benefits were also introduced for older uninsured workers, financed (by a 1966 Act) out of general revenues. Also in 1965, benefits were added for students age 18-21. In 1967 benefits were made available to disabled widows and widowers at age 50. In short, a total of 2.1 million beneficiaries was added by the 1965 and 1967 Amendments. "In no other period have so many people benefited from social security legislation." 20/

Benefits raised. -- Another major element in social security's expansion was the increase in benefits. We have mentioned already the substantial increase in the benefit formula of about 77 percent on average, which was legislated in 1950, when the eligibility requirements were also substantially liberalized to provide benefits for the 10 million newly covered occupations. That benefit increase became effective in April 1952. But additional legislation was passed raising benefits on three occasions between April 1952 and 1964: An increase of approximately 12.5 percent in September 1952; and an increase of approximately 13 percent in September 1954; and an increase of approximately 7 percent in January 1959. The minimum benefit, which had

doubled between 1935 and April 1952, doubled again between 1952 and 1961 (from $20 to $40).

These benefit increases in the 1950s, although substantial, were less than the growth in wages during the same period. A worker who had retired in December 1940 had received by the end of 1959 a real increase in benefits of 17 percent, after allowing for the decreased purchasing power of the dollar. But real per capita income -- the total output of goods and services averaged over the entire population -- more than doubled in 1935-1960. 21/ Thus, the general level of income support under the social security programs increased in real terms, but not as much as the gains enjoyed by the population as a whole. Similarly, replacement rates in the 1950s and 1960s were relatively stable: there were modest declines in replacement rates for low-paid workers, modest increases for average workers, while maximum earners had about the same replacement rate as in the early 1950s.

The dramatic change in social security benefit levels began in the late 1960s and accelerated in the 1970s. Benefits were increased twice between January 1965 and 1969, although the 1965 increase -- the greater of 7 percent or $4 -- came after five years (1960-64) during which benefits had not been increased. In February 1968, benefits were again increased, this time by 13 percent. Then, in the 1970s, benefits were increased on 10 separate occasions, finally culminating in the latest increase in 1980 of 14.3 percent. As a result of these increases, during the 1970s social security benefits grew faster than the rate of inflation, and the income of the elderly grew faster than those of working age. 22/

The 1972 Amendments: A "New" Social Security Program 23/

The 1972 Amendments were really the watershed in this trend of benefit increases. Besides providing for a substantial 20 percent increase in September 1972, the 1972 Amendments further provided for the indexing of benefits to the rate of inflation. As is now well known, the formula used contained a serious flaw: it overcompensated for inflation by its double-indexing effect. And this formula produced rapid increases in the replacement rates, which would create enormous financial deficits in the future. In contrast to the comparatively stable replacement rates between the 1950s and the late 1960s, during the 1970s replacement rates rose substantially for the low and average wage earner, while they increased only modestly for maximum earners. For example, the replacement rate for single low earners rose from 43 percent in 1970 to 64 percent in 1980; that of average earners rose from 34 percent in 1970 to 51 percent in 1980; that of high earners rose from 29 percent in 1970 to 33 percent in 1980. 24/

The 1972 Amendments thus seriously transformed the social security system. And in a basic way, the new law also altered the politics of social security. In the past, benefit increases could be voted by each Congress to much political advantage. It had been used especially by Democratic Congresses. The automatic adjustment formula, however, was pushed by a Republican administration to deprive the Democratic majority of the political opportunities for increasing benefits. 25/ But ironically, the new law would also create the financial necessity for Congress to undertake the politically unappealing task of passing tax increases, curbing the expansion of future social security benefits, and reevaluating the whole issue of automatic indexation of benefits, in response

to the adverse circumstances in the 1970s. Most of all, the politically unattractive task involved in raising taxes would have to be undertaken without the offsetting political advantage that would have been provided had benefit increases continued to be made on an *ad hoc* basis.

DEVELOPMENT OF EMPLOYEE INCOME SECURITY PROGRAMS

Employee pension systems play a crucial role in the economic security of the aged and the disabled, although the magnitude of their expenditures has been vastly overshadowed by the expansion of social security. About half of the private workforce is covered by at least one of the hundreds of thousands of private pension plans; about 85 percent of state and local workers are covered by one of more than 6,000 state or locally administered pension plans; and virtually all federal personnel are covered by one of the 68 federal pension systems. 26/

In 1975, private pension plans paid about $15 billion in retirement benefits to approximately 7 million beneficiaries. In 1978, federal employee pension plans awarded $10.7 billion in benefits to approximately 1.6 million beneficiaries; state and local government systems paid $9.6 billion to more than 2.2 million beneficiaries. 27/ Having surveyed the expansion and dominance of social security programs, we shall now consider the development of employee income security programs during the same period, looking first at public sector employees and then at those in the private sector.

Public employee retirement systems. -- Systems to provide retirement and survivor benefits for federal, military and civilian personnel were among the

earliest major employee retirement plans in the U.S. From modest beginnings, they have since grown to major proportions.

One of the earliest precedents for income security came about as a response to the needs of veterans. 28/ Service-connected pensions were awarded to those who served in the Revolutionary War. Later on, service-connected compensation benefits as well as non-service-connected benefits were provided for veterans and their dependents, for the War of 1812, the Civil War, the Spanish American War, and World War I. Thus veterans' non-service-connected pensions served for the veterans and their families as an income security program, long before the general population had access to public assistance or social insurance benefits. But pensions were only granted to military personnel who served during war periods; the pensions for the "old soldiers" were a mark of public gratitude for that wartime service.

As far as regular staff pensions for military personnel, the initial law establishing a military retirement system separate from veterans benefits was enacted in 1855, and it applied only to naval officers. In 1861, the first officer Retirement Act for Regular Army officers was enacted. Prior to the establishment of these retirement systems, there were no provisions for regular retirement. Officers remained on the active list until they resigned, died, or were eliminated for cause.

The military retirement system really developed in response to the perceived need to provide career opportunities for younger personnel and to retire older personnel presumed to be less capable of performing arduous tasks. The supporting legislation developed slowly with piecemeal modifications over

the next 80 years. But with the onset of World War II, the retirement issue came sharply to the fore because of the large increase in military personnel.

Consequently, expenditures for military retirement have escalated dramatically, especially since World War II. To illustrate, expenditures more than doubled between 1950 and 1960, rising from $0.3 billion to $0.7 billion. In the next five years, aggregate payments again more than doubled, reaching $1.5 billion in 1965. They doubled again to reach $3.1 billion in 1970; they nearly doubled again in the next five years to $6.2 billion in 1975. In the past five years, they have risen to an estimated $11.9 billion in 1980. This significant growth in expenditures has been attributed to the influence of three factors: more retirees, higher military pay, and inflation adjustments. 29/

Currently, the military retirement system awards substantial benefits of 50 percent of pay after 20 years of service, and it covers approximately 2.5 million military personnel. These benefits begin immediately upon retirement, frequently before the age of 45. Expenditures for the military retirement system are currently about 9 percent of the total defense budget. These military personnel are also covered under social security. Over the years, various commissions and groups have been appointed to study the appropriateness of the military retirement system, in terms of its staffing goals and in terms of national income security goals. 30/ And yet, despite repeated findings by the various study groups of the need for reform, change has not been forthcoming.

Federal civil service retirement. -- Historically, provisions of retirement benefits for federal civilian employees lagged behind the congressional action on

military retirement, although they were far in advance of the provisions covering the general population.

As in the military, the civilian employee pensions were initiated to provide a mechanism for removing older workers -- the so-called problem of "employee superannuation". In the federal civil service, complaints had been lodged from the early 1830s until 1920 -- that the efficiency of the federal government was impaired because many of its officials were "superannuated". Studies of the subject were conducted in 1893, 1900, 1902 and 1903. Beginning in 1899, an organized 20-year effort was launched to secure passage of a retirement act. 31/

The Civil Service Retirement Act of 1920 established the first contributory retirement system for civilian employees. Over the years, the system has been changed many times to broaden coverage and liberalize eligibility for benefits.

Currently, the federal government administers 68 retirement systems for federal personnel (including the military retirement system). The federal civil service retirement system (CSRS) is the largest, covering 90 percent of federal, nonmilitary personnel, with special provisions for certain groups such as members of Congress, congressional staff, law enforcement and firefighting personnel.

World War II multiplied the size of the military forces to 12 million and the federal civilian workforce to 3 million. Although the size of the federal workforce subsequently declined, it remained considerably larger than pre-war levels. Ultimately this exerted unprecedented impacts on the federal

retirement systems. These impacts were magnified by repeated liberalizations and extensions of benefits.

The benefit disbursements of the Civil Service Retirement system rose from about $53 million in fiscal 1935 for some 49,000 employee annuitants, to $428 million in 1955 for 297,000 retirees and survivors. 32/ The 1981 federal budget projected outlays in fiscal 1980 of $14.3 million to 1.7 million age and disability retirees and to survivors of deceased employees and retirees.

There are about a dozen other sizable retirement plans for federal and quasi-federal employees, with a great variety of provisions and funding arrangements. Among them are the foreign service, federal judiciary, Tennessee Valley Authority, and federal reserve retirement programs.

State and local government employee pensions. -- In state and local governments, the earliest pensions for public employees were for policemen, firemen and teachers. These plans were first established by municipalities or by employee associations. Initially they provided only disability or death benefits. The first municipal benefit plan was created in 1857 for New York City police, but it was not until 1878 that non-disability retirement benefits were provided.

Starting in the 1920s, state and local government retirement plans grew in number and coverage. Generally, the first initiatives created separate plans for special groups of employees, followed later by plans for general employees.

Rapid growth in state and local government retirement systems occurred during the 1940s and 1950s while the possibility of including state and local

employees under the social security system was being discussed. This growth may have represented an effort to remain exempt from social security coverage. It is also likely, however, that the debates over the inclusion of state and local employees in the social security system brought greater attention to the need for a retirement income program for these employees.

By the mid 1940s, over half of the 4 million state and local employees were covered under a retirement system. By 1966, some 5 million employees, or nearly three-fourths of the people employed by state and local governments, were covered. A majority of plans provided about 50 percent of the high 5-year average wage after 30 years of service. Except for policemen and firemen, most of the programs made only limited provision for survivors. Typical retirement ages were 60 or 65, with reduction in benefits for earlier retirement. "Dangerous occupations" typically had the option of retiring at any age after 20 years of service. 33/

By 1973, some eight million workers -- or three-fourths of state-local employees -- were reportedly covered. Earlier we saw that amendments to the Social Security Act during the 1950s had made it possible for state-local workers to elect social security coverage. Currently, about 70 percent of state and local employees are covered by social security in addition to their own plans. Most of the remaining state and local employees have some type of employee pension. 34/ Nearly 98 percent of all full-time state and local employees had either social security or employee pension coverage in 1975. 35/

Like the other income security programs, state and local retirement systems expanded their benefit outlays over the years. Benefit outlays, which

were about $60 million in fiscal year 1928-29, rose to $104 million in fiscal year 1935, $144 million in fiscal 1940, $300 million in fiscal 1950, and $9.8 billion in fiscal 1978. In 1950, the assets of state and local retirement systems were an estimated $5.4 billion, compared to assets of $123 billion in 1977. 36/

Private pension plans. -- As we have seen, private pension plans preceded a national income security program, but only since the 1940s have they assumed major importance in U.S. income security.

The first formal private pension plan was set up by the American Express Company in 1875. The plans spread, and by 1932, pension plans were found in all important lines of industry; they covered about 15 percent of the nonagricultural labor force. 37/

The early development of private plans was stimulated by a variety of social, political and economic factors. Pensions are a systematic provision against dependency in old age. Many early private plans were viewed as gratuities motivated by the employers' desire to provide a reward for "long and faithful service"; and many employers were motivated by a genuine concern for the welfare of the aged.

With varying degrees of emphasis, management has also used pensions as a mechanism for improving productivity. Older workers were viewed as being less able than younger workers. In the railroad industry, where private pensions got their biggest start, the railroads were liable for damages resulting from train accidents. Their pension plans were thought to remove aged workers in an orderly fashion as they presumably became careless and less efficient. 38/

Some company managements also hoped a pension plan would contribute to the development of a stable, loyal work force; others saw in pensions a means to reduce strikes and possibly to restrain further growth of trade unions. 39/

Labor organizations also established pension plans during this period, partly as a reaction to the employer plans. The first union plan to provide for periodic old-age payments -- as distinct from a lump sum -- was established by the Pattern Makers in 1900. By the late 1920s, about 40 percent of the trade union membership belonged to national unions offering one form or another of old-age and disability benefits. 40/

Many unions were suspicious of the early corporate pension plans as being both paternalistic and a device to thwart the unions. But pensions also served the interests of the unions by helping to attract and retain members and by strengthening the unions' financial reserves. In the early labor-management negotiations for pension plans, one of the earliest theories used to justify the contractual and moral basis for a pension was the human depreciation concept: workers, like machines, were used up and worn out, and industry should provide for their future through old-age retirement benefits. A supplementary concept adopted by the unions was that pensions were deferred wages. 41/

By 1940, pension plans began to proliferate, covering about 12 percent of the labor force. By 1950, the estimated coverage was 10 million workers or about 16 percent of the civilian labor force. By the end of the 1950s, an estimated 18 million private workers were covered by pension plans, representing about a third of the labor force. 42/ This sharp growth in private pension

plans during the 1940s and 1950s, was stimulated by several economic and political factors.

Federal tax incentives to qualified plans were a powerful force behind the growth of private pensions and profit-sharing plans. The Revenue Act of 1921 provided that employer contributions to -- along with current income from -- a stock bonus or profit-sharing trust established for the exclusive benefit of some or all employees, was exempt from income tax until the proceeds were actually distributed or made available to employees. These provisions were extended to pension trusts in 1926. The Revenue Act of 1928 permitted the deduction of reasonable contributions to a qualified pension trust for past service.

A further boost to pension plans was given by the sharp increase in corporate income taxes in 1940 and by ensuing pension plan provisions in the Revenue Act of 1942. During World War II and the Korean conflict, high corporate profits and excess-profits taxes stimulated business efforts to invest in tax-sheltered pensions. The Internal Revenue Act of 1942 also helped to expand private pensions indirectly, because the new tax provisions made management more receptive to union demands for pension plans. The Internal Revenue Code of 1954 and subsequent IRS regulations set forth conditions and clarified many issues for tax exemption of pension plan contributions.

Before the 1940s, labor's interest in pension benefits was not a significant item in its collective bargaining agenda. But since then, organized labor's drive for collectively bargained pension plans has been another major factor in the expansion of private pension plans. The wage stabilization policies of the National War Labor Board, which froze wages but permitted increases in other

compensation, popularized the idea of fringe benefits but they affected mostly short-run benefits such as paid vacations. 43/

In 1946, as a result of a long and well-publicized strike, during which the federal government took over the mines, the mineworkers pension fund was established. The so-called Lewis-Krug agreement has been called the single most influential force in the negotiated pension movement. "Lewis' struggles dramatized and provided the great initial thrust for the union welfare and pension drive. There had been earlier negotiated pensions, pooled funds and royalty types of contributions, but Lewis and the miners quickened the movement for negotiated pensions as nothing else had." 44/

Another factor was that the National Labor Relations Board and judicial opinions in the Inland Steel case (1948) made welfare and pension matters a mandatory subject of collective bargaining. An employer could no longer install, change, or terminate a pension plan concerning organized workers without approval of the bargaining agent for those employees. This provided a major incentive for labor unions in the following years to drive for negotiated pension plans in many basic industries through multi-employer plans.

The stability of social security benefits in the 1940s also made private pensions an attractive means by which labor unions could supplement the security of their members. Their argument that social security failed to provide adequate benefits was a major factor in labor's drive to negotiate pension plans. In early 1947, during congressional hearings on the Taft-Hartley Amendments, a representative from the UAW stated:

> The Union demand for adoption of a pension program only is made because the pitiful inadequacy of social security protection now offered by the Federal government forces us to take steps to achieve some interim protection for our membership through collective bargaining. 45/

By 1950, nearly all major unions had negotiated pension plans.

As of 1970, 26 million active private workers were covered by pension plans and although the number rose to 30 million by 1975, the increase represented only a slight change in terms of the percentage of the labor force covered. 46/ The growth of private pension plans has slowed considerably in the past two decades, and serious questions now exist as to whether the system will continue to expand.

Currently, only one-half of the private work force is covered by a private pension plan and only about 21 percent of the retired population age 65 and over is receiving income from private pensions. 47/ Coverage is primarily limited to large, unionized manufacturing firms. And the growth in pension coverage in the 1960s resulted more from increases in employment rather than from the introduction of new plans.

It is unlikely that the historical factors that have contributed to the tremendous growth of pension plans in the past will be as significant in the future. The factors that led to the increase in private pension benefits in the 1940s and '50s are declining in significance. Labor union membership, for example, has been declining as a proportion of all workers. Thus, it is unlikely that unions will be a significant source of private pension expansion. In addition, tax advantages which gave private pension plans a major boost in the past, may not be effective in further expanding the system.

The increased regulation of private plans has also been advanced as a partial explanation for the failure of private pensions to continue their previously rapid expansion. The regulatory environment governing pensions has not only been a response to the growing importance of private pensions in the retirement income system but has also helped to define and clarify their role.

Prior to 1949, the only restrictions on private management of pension plans stemmed from the administrative regulations concerning the tax status of qualified plans. Special tax considerations had been given in 1921 to plans created for the "exclusive benefit of some or all employees." In 1938, a requirement was added that an income from an exempt trust could not be diverted to purposes other than for the exclusive benefit of employees or their beneficiaries.

Concern that misinterpretation of "some or all employees" had led to a means of tax avoidance led to the Revenue Code of 1942, which prohibited tax-qualified plans from discriminating in favor of highly paid employers and officers.

The Internal Revenue Code providing tax advantages to pension plans has been amended several times to establish minimum qualifications for private plans to justify their special tax advantages. Part of the reason was to provide adequate security of employee interests as a condition for obtaining tax benefits, out of recognition that private plans were a desirable way of providing income in old age.

In addition, the Taft-Hartley Amendments of 1947 set forth essential conditions: Multi-employer pension agreements must be in writing, separate trust funds would be administered jointly by union and employer trustees, the funds must be used for the exclusive benefit of employees, and an annual benefit audit must be conducted. 48/

Enactment of the Welfare and Pension Plan Disclosure Act of 1958 reflected congressional concern that thousands of workers entitled to receive earned pension benefits were actually being denied their pensions. Special emphasis was put on the need for protection of workers covered.

During the 1960s, there was increasing concern that private pensions were financially unsound. The drive for pension reform legislation that resulted ultimately produced the passage of ERISA. ERISA also reflected other concerns about the role that private pension plans should fulfill. One major concern was that the eligibility requirements were unreasonable. ERISA imposed vesting requirements so that benefits would not be used primarily as a means of encouraging "long and faithful service". "A vesting requirement is necessary if private pension plans are to serve the broad social purpose justifying their favored status." 49/ ERISA was also intended to strengthen the existing regulatory mechanisms for the purpose of protecting rights and benefits due workers by requiring more disclosure about fund operations and by holding fund trustees to a standard of responsibility.

While Congress has succeeded in protecting the pensions of workers who are entitled to benefits, major issues still exist with respect to the proportion of those entitled to benefits and the adequacy of income from private pensions.

These issues demand a reevaluation of the policies used to promote private pensions as a supplement to social security.

The changes in the rates of growth of private pensions compel us to look more closely at the relationship between social security and private pensions.

Before the passage of the Social Security Act, concern was expressed that a national old-age income program would constrict the role of private pension plans. Efforts were made -- unsuccessfully -- to exclude from social security employees already participating in a corporate pension plan and those who in the future might come within the scope of such a plan. 50/ The "official" relationship that finally emerged between the two systems was that social security, providing basic benefits, would be supplemented by employee pensions up to some desired income goal. 51/

Because of the sharp increases in social security benefit levels in the 1960s and 1970s, concern is again being expressed that the social security system may be constricting the role of private pensions. Increases in the wage base beyond the rate of increase in the 1950s and 1960s, indexing of social security benefits, and rising social security tax rates, have all created legitimate concern that with continued expansion of the social security system "the private sector will eventually be pushed completely out of its role in the economic security field." 52/ The increased level of social security benefits in relation to preretirement earnings may discourage the need for private pensions to provide supplementary income. In addition, the increases in the wage base and tax rates raise social

insurance costs borne by employers, who may decrease private pension plans by some corresponding amount. 53/

The possibility of social security decreasing the role of private pensions in the future has not only fueled the debate over the most appropriate relation of public and private programs to achieve retirement goals, but it has also caused a reevaluation of present retirement policies. 54/ Although some have argued that an expansion of social security is the most appropriate way to achieve retirement income goals because of its administrative efficiency, broad coverage and portability, such expansion would have drastic implications for our national policies directed toward income security. Furthermore, the limitations of a pay-as-you-go retirement income system in contributing to capital formation, and the concern over the ability of the social security system to withstand future demographic pressures, are two among many social security issues indicating that an increased role of private pensions is desirable. That reevaluation should take place in the context of all the other income security programs, including welfare.

EXPANSION OF WELFARE PROGRAMS

The official relationship between social security and welfare has always been an ambivalent one. On the one hand, the Social Security Act gave a substantial place to the need for public assistance. Indeed, the old-age assistance provisions were given visibility in the Act, because of their popularity with Congress. On the other hand, social security was viewed as a long-term program designed to prevent dependence. Many people expected, therefore, that social security would eventually eliminate the need for public assistance, or at

the very least, restrict the role of public assistance to a kind of safety net for those inadequately protected under social insurance and private arrangements.

At the same time, sharp philosophical distinctions were drawn between the social security programs -- which pay benefits as a so-called "earned right" -- and the public aid programs, which rely on a means or income test to determine eligibility. Many of the advocates of social security's expansion specifically justified it on the grounds that its expansion was preferable to the use of means-tested programs. And so, whether intentional or not, the social security system that developed contained a bias against outright welfare payments, preferring instead to aid lower-income families under social security through benefit provisions weighted in favor of lower-income workers. If nothing else, this route lent middle-class respectability to the welfare elements contained in the social security program.

But despite the stated preference for social insurance over welfare, the need for public assistance did not diminish in the years since the Social Security Act was passed. In fact, the welfare programs have expanded along with the other components of income security. Ironically, the Social Security Administration was given an expanded welfare program -- Supplemental Security Income -- to administer in 1974, and its inclusion created administrative problems, which it took several years to resolve.

Total expenditures for public aid rose from $60 million in FY 1929 to $4.2 billion in FY 1939, reflecting the sharp escalation in relief payments during the Great Depression. Thereafter, total public assistance expenditures declined sharply during the World War II years. But, in the late 1940s, public assistance

expenditures began to turn up steadily, so that between the late 1940s and '50s, total expenditures nearly doubled: from $1.7 billion in FY 1948 to $3.6 billion ten years later in FY 1958. Then, in the 1960s, public assistance expenditures exploded: From $4.1 billion in FY 1960 to $6.3 billion in FY 1965. Expenditures then jumped to $16.5 billion in FY 1970, $40.7 billion in FY 1975, and $59.6 billion in FY 1978. 55/

These dramatic expenditure increases have been the result of changes in our welfare system adding new categories of assistance, new benefit provisions, and whole new programs. Although the federal role is often considered secondary to that of state and local government, federal expenditures for public aid constituted about two-thirds of the total fiscal year in 1978 ($41 billion out of $60 billion). 56/

The Social Security Amendments of 1950 improved public assistance eligibility. They added a new category of federal aid to the states for the needy who were permanently and totally disabled; they added aid for dependent relatives of needy children; and authorized payments to medical doctors, hospitals, and public health officials serving persons on public assistance -- so-called medical vendor payments. The latter provision set a precedent for the Medicaid program in 1965. Medicaid authorized federal grants to states to replace the earlier medical vendor programs for the aged, blind, totally disabled, and families with dependent children. Federal standards required that states could not exclude persons over 65 or under 21 from this new program.

The Food Stamp Act of 1964 began a nationwide income-tested program designed to subsidize food purchases, through regular retail stores, in an effort

to provide a nutritionally adequate diet. There were precedents for action of this nature: the federal outlays for nutritional aid programs in the 1930s that used surplus agricultural commodities. Since its enactment, the food stamp program has grown considerably. Program expenditures of $70.3 million to 1.2 million persons in 1966 rose to an estimated $8.7 billion to 20 million participants in 1980. Total federal outlays for food stamps, child nutrition, special milk, and surplus commodities programs rose from $1.6 billion in FY 1970 to an estimated $13.3 billion in FY 1980. 57/

The nation's welfare system has been the subject of repeated reform proposals. In 1969, President Nixon proposed a complete overhaul in his Family Assistance Plan, which failed to win support. The Social Security Amendments of 1972 did, however, authorize the federally financed Supplemental Security Income (SSI) program, replacing the earlier public assistance grants-in-aid to states for the needy aged, blind and disabled persons. The shift from state and local welfare programs to a nationwide income maintenance system was designed to offer procedural and administrative advantages as well as to benefit individual recipients. Those with the least general welfare grants received important income gains. Dissolving the welfare caseloads and reconstituting their memberships under a new federal authority would allow recipients to escape the "welfare stigma". The new program and the deliberate exclusion of welfare's most controversial payees -- recipients of aid to families with dependent children -- would promote a new respectability for old and disabled recipients. 58/

Meanwhile, the efforts to improve welfare benefits under AFDC meant another expansion in that area in the 1960s and '70s. The AFDC rolls expanded

from under a million families in 1964 to 3.5 million families in 1976. Total payments rose from $1.5 billion in 1964 to nearly $10 billion in 1976. 59/

The historical record shows that for a variety of complex reasons, the welfare sector in this country has expanded greatly, while the other income security programs, which were supposed to limit the growth of welfare, were expanding at the same time.

ADVERSE CIRCUMSTANCES IN THE 1970'S

With the considerable benefit of hindsight, we now realize that even as social security and other governmental income security programs expanded rapidly in the late 1960s and '70s, the U.S. economy had begun to slip from its peak economic growth of the post-war years. A transition into more difficult economic times began after 1965. 60/ Production was expanded for the war effort in Vietnam, but unlike the World War II period, when social programs and social security remained stable, this more recent war effort was executed without cutting back in other areas. On the contrary, a sizable expansion of domestic social programs was undertaken at about the same time.

The 1970s led to a rude awakening to economic realities. New demands had been added onto the economy faster than it was able to satisfy them. By the mid-1970s its capacity to produce in the future had been substantially eroded. The symptoms of these economic difficulties are now well known: rising inflation, a declining rate of growth in productivity, the energy crisis, and a weakened dollar.

In the last half of the 1970s, the nation faced a watershed in its economic history. Critical economic issues have moved to domestic center-stage: how to control inflation; how to stimulate growth; how to encourage productivity and investment; how to resolve the general problem of unemployment and the particularly difficult problem of minority unemployment; how to deal with the new constraints imposed upon our economic growth by the rise in energy costs and the shortage of supplies.

Against this backdrop of adverse economic circumstances, the rapid expansion of social security and other programs began to strain their financial arrangements. In the mid-1970s, annual deficits in the social security program and the prospect of enormous future deficits came as a shock to the American people, accustomed, as they were, to think securely of the trust funds as a huge reserve of money capable of meeting future commitments. But as serious as the social security financial problems are, parallel problems are being experienced in other areas of the income security sector.

The Railroad Retirement System has been running at a deficit, and is projected to run out of funds by 1982 or 1983. 61/ The nation's unemployment insurance system, still deeply in debt from the 1974-75 recession, is facing new financial strains as the current economic downturn puts millions of Americans out of work. States already saddled with loans from the 1974-75 recession are coming back to the federal insurance fund to borrow more money, and the 45 year old system may have to borrow from the U.S. Treasury for the second time in its history next year, when benefits paid out are likely to exceed revenues from employer taxes. And, the National Commission on Unemployment

Compensation recently recommended, among other things, that the program be strengthened financially by increasing the taxable earnings base. 62/

Health insurance costs have risen dramatically over the past decade and Social Security Hospital Insurance will require substantial additional financing in the future. 63/ But even more additional financing may be required, if we consider the possibility that the nation will adopt some form of national health insurance at some point.

Meanwhile, the Civil Service Retirement System, and other federal programs that receive general revenues, are feeling the overall strains upon the federal budget. State and local governments, which are generally experiencing a financial crisis of their own, are becoming more acutely aware of the fiscal burden of their own income security programs. And so are their employees. The American Federation of State, County, and Municipal Employees (AFSCME) has been pointing to the crisis brewing in this area of public finance. AFSCME has estimated that the unfunded liability of state and local pension plans is more than $300 billion, raising the issue of possible federal assistance in this area. 64/

The financial pressures upon social insurance programs are heightened by the potential decline in the role of private efforts. The value of private saving and private pensions has been seriously eroded by the recent high rates of inflation. Many serious observers even question the future viability of private plans, unless some form of inflation protection is built into them. Such protection, obviously, will require substantial additional financing on the part of employers. Even without such inflation protection, the possibility is real that the federal government may someday have to bail out private plans. It was

recently reported, for example, that about \$4.8 billion in pension liabilities could potentially be shifted to the U.S. Government by failing multi-employer private pension plans alone.[65/] The government provides similar insurance for single-employer defined benefit plans.

At the most basic level of income security, the provision of welfare assistance to the poor, financial strains are also being felt. Poor families have suffered the added hardship of rising energy costs, and welfare payments in many states have failed to keep pace with inflation, thus amounting to a reduction of welfare payments in real terms. Meanwhile, the state and local jurisdictions responsible for making these welfare payments repeatedly ask the federal government for badly needed financial assistance. And if some form of welfare reform is ever passed, it almost certainly will provide for higher expenditures than the present plan, under which benefits are often inadequate.

The critical issue that is hotly debated, and which must be addressed, is the extent to which the enormous growth in income transfer programs itself contributes to the slower growth of the economy and other current economic problems. Whatever the exact answer, it is certain that questions about financing income security programs will have to be framed in the context of the total tax levies upon the private sector and tax policy generally.

Unfortunately, we have generally experienced a series of individual commissions recommending increases in the financing for individual programs, without adequately taking into account the larger demands upon the economy . It is also important to realize that the European systems, often pointed to for solace because they have substantially higher tax rates than the United States,

are experiencing similar, if not worse, financing and economic problems related to income security. 66/

The lesson is rather clear: it may not be possible to rely on increased levies upon the private sector to resolve the financing problems in income security we are experiencing today. It is necessary to study the exact ways we are spending money, restructure programs to be more efficient, and scale them to levels that the economy can reasonably sustain without adversely affecting economic growth.

In the field of social security, Congress has already taken responsible action in that direction. The 1977 Amendments made substantial progress in reducing the long-term deficit facing social security, and they restructured benefits in a way that will amount to substantial corrections to the excessive replacement rates that developed after the automatic adjustment provisions went into effect. More recently, the 1980 disability reform legislation restructured benefits to remove excessive disability replacement rates that probably discouraged rehabilitation of disabled persons. But while these two pieces of legislation were important steps in the right direction, they were only the beginning of an effort that needs to be continued. The social security system still faces serious financial problems both in the short-term and in the long-term. 67/

The dilemma we face is that the adverse conditions confronting us in the 1970s indicate the need for more income security than ever before, but under circumstances which are more adverse than in the past. A host of complex issues must be taken into account if the needs of all the public are to be met.

For this reason, we have entered a new era in which we can no longer afford the uncoordinated expansion of separate income security programs as in the 1960s and 1970s. Rather, our efforts have to be focused upon making adjustments that lead to a comprehensive national income security system that is fair to everyone. These adjustments, moreover, will have to be made in a new political climate, in which mistrust of government is rife, and the public is generally demanding a smaller role for the federal government in their lives.

II. APPRAISAL OF THE CURRENT SITUATION

THE VAST CONTOURS OF THE INCOME SECURITY SECTOR

In the past 45 years, a vast and expensive income security sector has developed in this country, an accumulation of governmental programs and employee plans, but with the governmental programs clearly dominant. Specific definitions of the income security sector vary among different authors. But the general dimensions are clear. Income security activities are the single largest activity of government and account for about half of the entire federal budget.

As set forth in Table 1, an estimated $245 billion dollars will be spent currently by the federal government in cash benefit payments under social security, unemployment insurance, special retirement systems (railroad, civil service, military retirement), veterans benefits, and public assistance. An additional $64 billion will be spent on related federal in-kind health care benefits. In excess of $63 billion will be spent by state and local governments for their retirement systems, public assistance, disability and workers' compensation benefits, and health and medical programs. Finally, more than $63 billion will be spent through private plans: pensions, temporary disability, supplemental unemployment, health, life insurance and death benefits. In other words, cash benefit payments and in-kind benefits under public and private programs will exceed $437 billion.

A very significant dimension of the income security system is composed of federal "tax expenditures", i.e., exemptions and write-offs from taxes that

TABLE I

INCOME SECURITY EXPENDITURES
Fiscal Year 1981
(in billions of dollars)

Direct Federal Expenditures		
Social Security	$137.0	
Railroad retirement	5.2	
Disabled coal miners	2.0	
Federal civilian employees	16.7	
Veterans disability, pensions and other benefits	13.0	
Military retirement	13.7	
Unemployment compensation	18.8	
Public assistance and other income supplements	38.1	
Total		$244.5
Related Federal Expenditures		
Medicare	38.4	
Medicaid	15.6	
Hospital and medical care for veterans	6.1	
Other health care services	4.1	
Total		$ 64.2
Federal Tax Expenditures 1/		
Exclusion of social security benefits	10.7	
Exclusion of railroad retirement	.4	
Exclusion of worker's compensation	1.4	
Exclusion of untaxed unemployment income	3.1	
Exclusion of public assistance	.5	
Exclusion of disability pay	.2	
Net exclusion of pension contributions & earnings	17.2	
Exclusion of other employee benefits	1.7	
Exclusion of interest on life insurance savings	3.9	
Exclusion of capital gains on home sales for persons age 55 and over	.6	
Additional exemption for elderly	2.1	
Tax credit for elderly	.2	
Deduction of casualty losses	.7	
Earned income credit	.4	
Exclusion of interest on State and local housing bonds	.6	
Exclusion of veterans benefits	1.3	
Exclusion of capital gain at death	5.1	
Exclusion of contributions for medical insurance premiums and deduction of medical expenses	20.6	
Investment credit for ESOPs	.7	
Jobs credits	.3	
Total		$ 72

Table 1 (continued)

Benefits Paid Under Private Employee Plans 2/		
Retirement	15.0	
Disability	4.7	
Supplemental unemployment	.2	
Health	35.9	
Life insurance and death	4.0	
Accidental death and dismemberment	3.2	
Total		$ 63
Expenditures by State and Local Government 3/		
Social Insurance	27.8	
Public aid	18.6	
Health and medical programs	11.6	
Veterans programs	4.7	
Total		$ 63

1/ Taken from Tax Expenditure Estimates, Special Analyses, Budget of the United States Government, Fiscal Year 1981.

2/ Data are for 1975 for retirement benefits and 1977 for other categories. Total benefits during fiscal year 1981 can be assumed to have increased to about $95 billion.

3/ Data are for 1978. State and local government expenditures for social insurance, public assistance and other social welfare programs in fiscal year 1981 can be assumed to have increased to about $75 billion.

SOURCE: The Budget of the United States Government, Fiscal Year 1981. Benefits under private plans estimated by U.S. Social Security Administration. State and local expenditures from Alma McMillan and Ann Bixby, "Social Welfare Expenditures, Fiscal Year 1978," Social Security Bulletin, May 1980, pp. 3-17.

subsidize the provision of income maintenance. The government policies reflected in the tax law determine in basic ways the shape of private expenditures in this area. Using the 1981 Budget Special Analyses, the tax expenditures for income maintenance and employer health and welfare plans are $72 billion.

If we add the cash benefits payable under federal, state and private programs, the "in-kind benefits" and the other private and welfare benefits, and the tax expenditures for the various parts of this system, the total expenditures are in the $510 billion range, or about 17.6 percent of 1981 GNP estimated at $2,885 billion. And that is probably a conservative estimate, because the data used for private outlays and state and local government expenditures are a few years old.

We do not know exactly how many people receive these various benefits, because many persons are eligible for more than one benefit. A fair estimate is that roughly 1 out of 4 Americans, some 55 million people and maybe more, depend on these income security programs for their major source of income.

By looking at all the public and private programs, and focusing upon their common elements, a unique perspective on the income security phenomenon is provided, one which cannot be obtained from looking and analyzing only individual programs. Indeed, coming to grips with the cumulative effects of the public and private efforts to achieve income security has become one of the critical challenges of our society as we enter the 1980s.

INCOME SECURITY ACCOMPLISHMENTS

On the whole, the income security sector reflects some major, even majestic, accomplishments. For example, in 1935, nine out of ten older Americans had no pension, public or private. Today, 93 percent of the elderly are either receiving social security benefits or will be eligible to receive them when they or their spouses retire. This has helped to reduce economic hardship for individuals, and has also helped to stabilize our society and our economy during periods of cyclical downturn. The elderly, the disabled, and the poor generally can count on receiving at least a basic level of income security.

The expansion of our economy, coupled with the massive expansion of our social programs, has helped to reduce poverty substantially. Although the debate about accurate measures of poverty goes on, a fair reflection of the progress made is the number of persons whose cash income falls below the official poverty line. The percent of persons defined as poor dropped from 22.4 percent in 1959 to 11.8 percent in 1976; and poverty among those 65 and over experienced even greater reductions: from 37.7 percent poor in 1959 to 15 percent in 1976. If the cash equivalent of in-kind benefits is added to the money income of the elderly, according to one estimate only 3-4 percent of the aged remain "poor". 68/ In short, this nation has made great progress in providing for the income security of its citizens.

INCOME SECURITY DEFICIENCIES

At the same time, it would be irresponsible to ignore the notable deficiencies of our present system. In this regard, the U.S. General Accounting

Office (GAO), in February 1980, published an illuminating study entitled: U.S. Income Security System Needs Leadership, Policy, and Effective Management. What it suggests is a major failure of government to properly manage the vast programs it is responsible for, with dire consequences for prudent federal fiscal management generally.

What the GAO found is that the U.S. income security system is characterized by excessive fragmentation, overlapping programs, waste, and administrative complexity. The United States finds itself, they wrote, "with a bewildering array of income security programs spread across Federal, State and local jurisdictions." The system has not only grown in size but changed in its philosophy: what once was viewed as "charitableness" has now become to many Americans a sense of "guaranteed right" to their income security. The GAO acknowledged the worthwhile goals that income security programs have achieved, both individually and collectively. But the task force also learned that there is widespread unhappiness with the system. "Critics agree the programs are too complex and seem unmanageable. There remain unmet needs, inequities, inefficiencies, strong work disincentives, and questions about the Nation's continuing ability to meet income security needs and stay within acceptable spending levels."

A basic problem with the system is that we lack understanding of the impact of all these programs on larger economic and social issues. The combined effects of these programs on capital formation, inflation, productivity, international trade, and many other issues, are simply not known, although some important work is going on in these areas to clarify the issues.

As it stands, the present fragmented system, the components of which developed independently and haphazardly, has created an atmosphere in which special interests thrive and serious equity issues abound. This has major implications for our ability to reform the system. Regardless of the analytic findings on the issues, reform of income security programs will involve the politics of coalescing support for changes that do not necessarily advance the interests of particular interest groups and may even be harmful to them in the short term.

The GAO found that over time, an entrenched clientele has developed for each new income security program. Its sponsors -- legislators, designers, administrators and beneficiaries -- tend to safeguard and perpetuate the activity, to ensure that funds are earmarked for the purposes they desire, and to resist changes thought to be unfavorable to their programs. Numerous pressure groups, acting for well-defined interests in such areas as veterans pensions, social security, welfare, unemployment, and so forth, profoundly influence program policies, management, and proposals for changing the programs.

Since income security programs affect virtually all individuals and sectors of the economy, the number of individual specific and public interests to be considered and reconciled on any major reform initiative is extensive. Because there are those who now benefit from even the least justified features of the programs, every proposal for change -- regardless of its purpose and merit -- arouses opposition. The bureaucracies that administer these separate programs generally share the interests of their constituencies, and often they do their utmost to justify the "distinctive" aspects of their programs as a defense against the threat that reform poses to their programs. Special interests are

particularly powerful in today's situation because there is no general agreement about what constitutes the income security sector, nor are there any comprehensive and coherent national policies or priorities that are followed.

At the same time, the pressures for reform increase as the public becomes more aware of the inequities that abound in the system. There are major disparities and inequities depending upon varying work patterns, occupations, age, sex, and the point of entry to income security programs. Importantly, the programs seem inadequate to many who benefit from them.

Although measures of "adequacy" naturally vary, there is considerable truth to this sentiment. Looking just at cash income, it is astonishing that in a country devoting more than $400 billion to income security payments, the cash incomes of nearly 15 percent of the elderly -- some 4 million people -- remain below the official poverty line, along with 20 million others, mainly the disabled, children and women. If we use a higher measure of "adequacy" like the Bureau of Labor Statistics' intermediate budget levels, then a recent study shows that of the rtired people age 65 and over, 65 percent of nonmarried males, 75 percent of nonmarried females and 40 percent of married couples did not have sufficient cash income in 1978 to purchase the living standard implied by these BLS moderate income levels. 69/

The effectiveness of our public assistance programs has been in doubt for quite some time. The above mentioned study of in-kind benefits suggests that with the exception of Medicare, all other in-kind income in 1978 was primarily received by persons and families with cash incomes below $5,000. On the other hand, studies of cash-benefit programs suggest that those programs are not as

effective.[70] In addition to the rules and regulations that govern the distribution of welfare benefits, increasing attention is being given to the management of these programs, which has been riddled with error, waste and abuse.

Under the social insurance programs, we find substantially different treatment of people depending on their occupations. About a third of state and local employees are not covered under social security, with serious deficiencies in their insurance protection. Yet federal civil service employees have enjoyed better benefits than the general public who support all of these programs through their tax levies. Women generally have fared badly under income security programs, because of varying and inadequate provisions governing divorced and widowed women, and because of the discriminatory impact of social insurance programs like social security. Disability provisions vary substantially from program to program in their coverage definitions and in their determination processes. And while millions of Americans are so unfortunate that they remain below the official poverty line, millions of others manage to accumulate several income security benefits and to reap a windfall. In many ways, the inadequacies and the inequities in the coverage and the benefit structure are magnified by the inconsistent tax treatment of benefit income and contributions. Depending upon the type of benefit, there are very different tax consequences for individuals.

Although social security is intended to be supplemented by pension income, many of the retired depend largely, if not solely, on social security. Many government employees receive windfall benefits from social security because their pensions are not coordinated. Many others receive reduced pension benefits because their pension plans are integrated with social security. There are some retirees who have excessive income from combined pension benefits

from more than one employment, while at the same time there are those with inadequate benefits because of several pensions from more than one source.

Overall, we are compelled to acknowledge the failure of the traditional income security approach: that of a three-legged stool, composed of compulsory social insurance, private pensions, and private savings. That approach, although it has been repeatedly articulated by government officials and others, is simply not a reality.

The reality is that social security expanded dramatically, while private pensions experienced slower growth, and private savings failed to develop to a satisfactory degree. Today, social security is the primary source of income for two out of three retirement beneficiaries. Private pensions and other supplementary plans play an important role in providing benefits for a portion of the elderly, the disabled, and survivors, but the amount of payments is relatively small compared to the governmental programs. In 1975 private pensions awarded $15 billion to 7 million beneficiaries, state and local governments awarded $7 billion to 1.7 million beneficiaries, and the federal systems awarded $7 billion to 1.3 million beneficiaries. OASDI awarded about $67 billion in benefits to 32 million beneficiaries that year. 71/ Today, social security is paying benefits at an annual rate of $120 billion and in fiscal 1981 that figure is expected to rise to $137 billion.

The historical record shows that social security has been able to expand without regard for, and probably at the expense of, the expansion of private pension protection. One reason that social security has been able to expand so dramatically is that it has developed a powerful ideology that submerges the

welfare components of income redistribution and intergenerational transfers, beneath the conservative respectability of a middle-class program of "insurance". Elsewhere I have analyzed these social security myths and their implications for the future. 72/ In my judgment, the traditional ideology is likely to break down under the impact of changing social aspirations and changing demographics. The public is not likely to support indefinitely the manifest inequities in transferring burdensome social security costs to future generations, who will not fare nearly so well under social security as the earlier generations. Clearly, it is in the public interest to control the expansion of social security programs and to make adjustments that will make the central feature of the income security system more equitable to all concerned, particularly the future beneficiaries who are today's and tomorrow's taxpayers.

But the lesson of the past expansion of social security is worth emphasizing: Unless private pensions can be expanded to provide meaningful supplementation of social security, the pressures will mount to expand social security, because so many people depend upon it as their major source of income. As the elderly grow in number, as additional needs are identified, and with their high voter participation, these demands will become increasingly important politically, even though they may force a conflict with younger generations who have to sustain the more burdensome social security costs.

Before private pensions can expand to fill the needed role, serious issues have to be resolved: the lack of full coverage especially of women and minorities; the problems of inadequate vesting and portability rules; the possibility that plans may not meet future benefit commitments; and the impact of inflation on private benefits. Unless private pensions make important strides on these issues,

we can expect social security to expand, regardless of the economic and social consequences.

POLICY IMPASSE: THE NEED FOR A COORDINATED SYSTEM

The American public is becoming steadily more aware of some of the deficiencies of our income security programs. The financial problems have been given wide publicity in the press. The problem of inflation and the related indexing provisions have brought into focus the larger question of the relationship of the entitlement programs to the economy as a whole. The glaring inequities in the different public programs, the inadequacies of private pensions, the problems of fraud, abuse and waste of public tax dollars, all of these issues, and more, are steadily making their way in the public debate.

But the public still lacks a thorough understanding of who benefits, and who pays, and why. That is partly because the programs have not functioned as a system, even though they serve common goals. The public has not been given an accurate accounting of how many people are eligible for multiple benefits and what the total duplicate benefits amount to. A recent opinion survey found that many members of the public still do not realize that federal employees are treated differently under social security, 73/ and that some of these groups have historically developed privileged positions within the income security sector under programs underwritten by the general taxpayers.

Since the income security sector lacks overall policy and a system of priorities, it is impossible for the public to understand why the welfare needs of veterans, for example, are treated differently from the welfare needs of other

poor citizens, and why both are treated differently from the welfare needs of low-income people covered under social security. Indeed, in many areas, there may not be satisfactory answers for such differential treatment, once the common goals of the income security sector are better articulated.

Meanwhile, our nation lacks the institutional mechanisms to deal comprehensively with the system as a whole, rather than with its separate parts. The pluralistic, independent evolution of these separate programs means that responsibilities for income security are now scattered among numerous agencies. Outlays appear in different parts of the budget, and are divided among innumerable congressional committees. And some of the important areas, like state and local retirement plans, really have no policy coordination within the national income security sector.

To illustrate this fragmentation of authority, at the federal level alone, the GAO found that 119 of the total 306 congressional committees and subcommittees have policymaking, fiscal, and oversight responsibilities for income security programs. Ten of the twelve cabinet departments, more than 25 operating groups with the ten departments, and at least seven independent agencies administer income security programs. Each unit operates within the limits of its own jurisdiction, according to its own traditions, its own priorities, procedures, and timetables, and largely without regard to actions taken or under consideration by others. Policymaking is uncoordinated, and planning for effective program interactions is obstructed by the division of responsibilities.

The numerous _ad hoc_ commissions organized to study particular programs are helpful, but are only a partial and temporary remedy. Often, their vision,

too, is confined to a particular set of issues or programs. Furthermore, the expertise they develop is often lost or scattered when the commission expires. In the case of social security alone, the country will have had three major commissions reporting within two years of each other: the Advisory Council on Social Security, the National Commission on Social Security, and the President's Commission on Pension Policy. The jurisdictions of these commissions often overlap. But most important, their efforts are limited in time and in terms of resources. They are no substitute for the regular, ongoing type of policy direction that is so badly needed.

Meanwhile, public attitudes are becoming increasingly more critical in the whole matter of income security reform -- and rightly so. In the case of social security, for example, the country lacks confidence in the financial ability of social security to deliver the benefits promised in the future. Some members of the public advocate that the welfare elements be taken out of social security and that we restore social security to a limited retirement system. But the public does not realize that the welfare elements have really been so artfully woven into this system, that the system, as it is currently structured, does not permit such a separation. A broad-based reform, along the lines of a double decker system, would be required. Even though that may be desirable, many citizens would resist reform; they feel threatened by proposals for change in the existing programs, and understandably so, because they depend on current payments or are looking forward to receiving payments. Powerful advocacy groups are quick to mobilize their constituencies. The point is, simply, that public attitudes are critical to the process of reform. Supportive public attitudes must underlie worthwhile reforms, if they are to be enacted.

In the context of these economic, social and political developments, some income security problems have been developing which are difficult to resolve and which may become explosive. Social security financing is one illustration. Although Congress took constructive action in 1977, to raise taxes and lower future benefits, the system is once again in short-term financial difficulties. As much as $50 to $100 billion or more of additional funds may be required between 1981 and 1985. Yet the public was told at the time that the 1977 changes would put social security on a sound financial footing for the next 50 years. The public's confidence in government is severely strained with each announcement of new financial difficulties, which are always accompanied by some official reassurances, which are later rendered invalid by recurring financial problems. And just consider that the short-term social security financing problems really pale in significance in comparison with the longer-term social security costs of an aging population, longer life expectancy, and declining labor force. As yet, no one has mustered the political will to deal with these long-term issues, because of the likely negative public reaction to the inevitable solutions: proposed cuts in the benefit provisions or increases in the retirement age or further increases in taxes.

To take another example, welfare reform has been snarled for the past decade. Every responsible politician acknowledges the need for fundamental reforms. But the concerns over costs, and the lack of agreement over guiding principles, has frustrated attempt after attempt at reform.

What is worse, the financing issues in these various programs are contemplated even without reference to the clear demands in other program areas, like national health planning. For example, the 1979 Advisory Council on Social Security recommended that Hospital Insurance (HI) be funded out of

general revenues, and that part of the current payroll tax for HI should be shifted to finance social security cash benefits. While that may or may not resolve the financing problems facing social security, it very clearly creates problems for the financing of national health programs. That is especially significant because the HI program alone is expected to experience serious financial strains in coming decades. 74/

Another policy impasse has developed in the attempts to coordinate the various income security programs. The coordination of social security with other employee pensions and public programs was something that Arthur Altmeyer, Chairman of the Social Security Board and the first Commissioner of Social Security, recommended as far back as the 1940s. Since Altmeyer and his colleagues had a bold vision of social security's future expansion, they foresaw the problems of overlap and duplication of benefits. Yet very little has been done in that area, and much more remains to be done. No movement for achieving a coordinated system has developed in the United States; and no effective mechanism has existed to shape policies designed to achieve these ends. As a result, some difficult problems of noncoordination now confront the income security system. Many of the issues of coordination have ceased to be technical issues and have become political time bombs.

Consider the issue of universal coverage. Various study groups have recommended some form of social security coverage for government employees for the last 25 years. In 1954, the Committee on Retirement Policy for Federal Personnel completed a statutorily-authorized study of civil service retirement. The committee proposed, among other things, a plan for covering federal employees under social security and converting the civil service retirement

system to a supplementary staff pension plan. Proposed legislation was even sent to Congress, although it failed because of opposition from the employee organizations. Many studies in the intervening years have furnished clear evidence of the gaps in protection and the "windfall benefits" due to uncoordinated coverage. Still no action has been taken. The 1979 Advisory Council on Social Security recently recommended mandatory coverage of federal employees, and the Universal Coverage Study Group recently issued a long report on the desirability and the feasibility of extending social security coverage to government employees. 75/ But once again, these proposals are stalled by political considerations.

Similar obstacles have arisen with military retirement and veterans' disability and survivor benefits. By the time of the Korean conflict, wartime servicemen had developed a system of survivors protection that was very complex, costly, and inequitable. Recommendations to simplify and rationalize this structure were made both by the Committee on Retirement Policy for Federal Personnel in 1954 and by the President's Commission on Veterans' Pensions in 1956. Legislation in 1956 created a more coherent system consisting of certain survivors benefits and full coverage of military service under social security. In the process, however, social security disability and retirement benefits for military personnel were provided without any offset in the military retirement or veterans compensation benefits. In later years, as social security, military retirement, and veterans disability compensation benefits all escalated, a considerable problem of "overbenefits" resulted for military disabled and/or retired personnel. However, the President's Commission on Military Compensation found that the studies sponsored by the Department of Defense had difficulty in realistically addressing this issue. 76/

Better results have been experienced in coordinating income from employee pensions and social security, although that, too, has its problems. Most private pension plans take social security benefits into account in setting or negotiating benefits. An estimated 87 percent of all corporate plans are directly integrated with social security. And although collectively bargained plans are generally not integrated, the social security system has had a significant influence in shaping benefit provisions. Nevertheless, despite the importance of the relationship between the benefits of social security and employee plans, "benefit levels from the systems are established by different decision making bodies, without either being sure of the benefits of the other." 77/

State and local employee pension plans vary in the degree to which their benefits are coordinated with social security. About 16 percent of state and local plans utilize a benefit formula which takes into account the benefits provided to employees under social security. Real problems exist with the public employee retirement plans which do not consider the level of social security benefits in setting their own benefit levels. The problem was aggravated as social security benefits expanded greatly in the 1970s. An estimated 40 percent of retired career state and local employees, who had also been covered by social security, received retirement income of between 100 percent and 125 percent of pre-retirement earnings. 78/ Thus, the combined income from social security and these nonintegrated plans began to exceed final years' disposable income for career workers in low and moderate income brackets. 79/

A serious lack of coordination is also found among employee pension plans, which generally are not coordinated with one another. In most cases, no reciprocity or portability arrangements exist. The opponents of such

coordination argue that it would be too costly. But the uneven treatment of mobile workers covered under several plans suggests a strong need for some coordinating mechanism. Indeed, one of the arguments for the expansion of the social security system has been that its benefits are completely portable and vesting is relatively early. Clearly, some coordinating mechanism must be devised if private plans are to emerge as serious alternatives to continued expansion of social security. But no way has yet been found to overcome the obstacles and improve the coordination among private plans.

In closing this appraisal of the current situation, it is necessary to emphasize that the record is mixed: major accomplishments have been realized; many major problems have yet to be resolved. Although many of the problems have been around for a long time, efforts at reform have not been forthcoming. Some way of breaking the policy impasse has to be found, if the income security system is to meet the greater demands that will be placed upon it in the future. In sum, this single largest activity of government has to be better managed if the long-term interests of the nation are to be realized.

III. ISSUES FOR THE FUTURE

Even though the income security system has grown prodigiously in the past 45 years, it is reasonable to expect that it will continue to grow in the future both in absolute and in relative terms. The ultimate issues involve the nation's ability to shape that growth intelligently.

INCOME SECURITY EXPENDITURES WILL CONTINUE TO GROW

A key to the future is that the social security system -- the largest single part of the income security system -- is indexed to both wages and prices. The technique of indexing wage records to changes in average wages is often justified as "stabilizing replacement rates." Critics of the system point out, however, that wage indexing commits the system to continued expansion -- and higher tax rates -- in the future because benefits will automatically rise along with wages. Further, benefits currently being paid are automatically adjusted for changes in the consumer price index. Some serious proposals to curb the future growth of social security have suggested that the present system of indexing wage records be changed to a system of price indexing. 80/ Unless the indexing techniques are changed substantially, the costs of the social security system will almost certainly continue to grow.

There are also other important indications that the system will grow in relative terms. Current projections show a sharp rise in the proportion of elderly persons in the next century, as the baby-boom generation reaches retirement age. Coupled with this increase in the numbers of elderly persons, there has

been a rise in life expectancy, and earlier retirement. Together, these trends mean sharply rising social security expenditures in 25-50 years.

As more elderly persons are in retirement for a longer period of time, it is also reasonable to expect that there will be new demands for meeting the needs of the elderly, both for income and services. For example, older persons beyond age 75-80 usually have greater needs than those in the age 65-75 category. That type of vulnerability suggests the need for future expansion of benefits for special categories of elderly rather than to all persons over the age of 65. Many have already begun to raise the issue of whether benefits for the elderly should be related to age or need. 81/ And this issue will surely emerge in the consideration of any proposals for future expansion of benefits.

Additional cost pressures may also arise in an attempt to correct the numerous inequities in the treatment of women. The inadequacies and inequities of benefits for women under social security has been the subject of increasing interest and analytic study. Social security does have a discriminatory impact on women. Correcting that discrimination is a basic question of fairness, which has to be faced if the system is to be brought in line with the current realities of women's labor force participation and the general changes in the roles of men and women.

But the efforts to achieve equal treatment of men and women will most likely result in higher social security costs. Changes could be made to the system in a way that would equalize the treatment of men and women without adding to total costs by redistributing benefits. The costs of earnings-sharing, for example, would depend on the particular modifications adopted. Long-range

estimates of some alternatives actually reduce costs slightly, while other proposals raise them substantially. 82/ But realistically, the most politically feasible changes will add to costs by increasing benefits for some to the level already achieved by others.

The 1979 Advisory Council on Social Security recently estimated that earnings-sharing could be implemented for retired beneficiaries and their dependents, at a modest cost increase of 0.02 percent of taxable payroll (roughly $230 million in 1980). If earnings-sharing were also to provide disability benefits to persons who are not eligible for them under present law -- primarily homemakers -- then the Advisory Council projected a substantial additional long-term cost of 0.26 percent of payroll ($3 billion in 1980). Thus, for retirement, survivors and disability, estimated costs to implement the specific earnings-sharing plan described in the Advisory Council report would be 0.25 percent of payroll over the next 25 years and 0.35 percent of payroll over the long-range 75 year period, or $4 billion in terms of today's payroll. 83/

Further, the drive for improvement in the treatment of women under income security should also recognize the existing need for remedial action for the disproportionate number of elderly women who are now in poverty. In short, an aggressive effort to improve the situation for women under the income security system could be expected to cost more money. That should not be interpreted as an argument to dissuade us from doing what is right in that area. On the contrary, we must act. But it does add to the total cost pressures anticipated in the future.

We can also anticipate the need for expansion in the area of health benefits. The House Select Committee on Aging, for example, recently released the findings of a study on Medicare, which showed that health costs to the elderly have increased by 525 percent during the 15 years that Medicare has been in existence. 84/ Such findings will continue to generate powerful demands for the federal government to provide better health care benefits for everyone, and especially for the elderly, who have higher per capita health care costs than the general public.

Meanwhile, more liberal benefits are repeatedly recommended in our welfare system, in our unemployment insurance system, in our disability programs, and in our public and private retirement programs.

The ultimate question is not whether income security will continue to expand in the future, but rather how it will expand. Will its future growth be orderly, efficient, and controlled? Or will separate income security programs continue to grow as they have in the past, without relation to other programs in the sector? The answer is likely to be dictated by the growing importance of the financial issues.

NEED FOR SOUNDER FINANCING MECHANISMS

Providing for a reliable financing system is perhaps the most important requirement for the future of our income security programs. We have already noted the widespread financial difficulties that have occurred in various parts of the income security system. Not only must the current deficits be met, but a system of financing should be developed that has enough reliability and enough

flexibility so that the public is spared the recurring trauma of being threatened by the loss of future benefits.

Further, the methods of financing these programs have to be compatible with economic growth, and must not have harmful side effects, such as incentives for people to reduce their work effort. This goal of financial reliability, therefore, should not be chained to any traditional ideology about the so-called "proper way" to finance these separate programs. Rather our goals should be pragmatic: We need to find ways of financing these public programs that are consistent with the goals of general economic and tax policy.

As financial problems of the U.S. income security system occur in a whole range of different programs, at federal, state and local levels of government, the pressures mount to find additional and alternative sources of revenue to meet these obligations. The primary consideration in finding solutions should be an economic one. Concerns about the correct way to finance social security or any other program must become secondary to the impact of those financing methods upon our national economy. In the past, not enough attention was paid to the economic aspects of the income security system. But as we seek to finance income security in the future we have to pay more attention to the impact of income security financing on economic issues such as capital formation, labor force participation, and inflation.

More specifically, the financing arrangements must be consistent with the goals of our national tax policy. To illustrate, if tax policy is to stimulate future savings and investments, it makes little sense to resort to methods of financing income security systems which may discourage savings. General tax policies

that encourage individuals to save simultaneously serve both national economic goals and income security goals. There are many different ways of using the tax system to stimulate savings, ranging from more radical alternatives -- like a shift from the income tax to an expenditure tax -- to the current piecemeal network of tax subsidies that we now have. 85/ Deeper exploration of these issues must take place.

RESTRUCTURING INCOME SECURITY PROGRAMS

The present and future demands on the income security system suggest very clearly the need for thoughtful restructuring of the entire system so that present expenditures can be used to their best advantage and future expansions will better serve everyone's needs.

For the first time, a systems approach to delivering income security should be developed. There is a need to make the best use of scarce public and private resources to meet the growing demands for income security in the future. The way to achieve that optimum use of scarce resources is to take a systems approach, a comprehensive look at who is getting what benefits, and whether some benefits should be expanded, eliminated, replaced, or consolidated with other benefits. Under a systems approach, for example, a more reliable measure of poverty and a more accurate estimate of those who fall above and below the poverty line could be developed. As it stands, our current measurements are inexact and controversial. A systems approach might also allow us to recognize the welfare elements in veterans benefits, social security, food stamps, and other programs, and consolidate them in a more effective system of cash relief to the needy.

Restructuring is needed to develop a more equitable benefit structure generally. That means eliminating windfalls, overlapping programs, and excessive accumulation of different public benefits. Right now, the system permits some people to do extremely well while others do miserably. That disparity must be changed.

The way to achieve better equity and effectiveness is to coordinate existing programs. The integration should focus both on the way present program provisions relate to each other and on the way they are administered. Fortunately, there are some precedents for such integration of programs. Railroad employees, for example, were covered under a system that was separate from social security. The failure to cover railroad employment directly under social security resulted in widespread duplicate and windfall benefits similar to those currently enjoyed by other noncovered employees. Congress created a Commission on Railroad Retirement in 1971 which produced recommendations for the splitting of the railroad retirement system into a two-tier system: full social security coverage as the basic layer with a supplementary layer of railroad staff benefits. 86/ That system was adopted in 1974. The present two-tier system is still administered by the Railroad Retirement Board, but has eliminated dual windfall benefits for the future. The cost of preserved, vested, past dual benefits was shifted to the U.S. Treasury and will run into billions of dollars. But that kind of integration was a major improvement, nevertheless.

Integration has also been realized between some welfare programs for veterans and general public aid programs. For example, prior to the Veterans Pension Act of 1959, veterans received non-service connected pensions without

any test of need. That became a more serious problem as welfare benefits and social security benefits became more substantial. The 1959 legislation adopted a modified sliding income scale approach, using three income brackets, which set three different veterans pension rates. This saved billions of dollars in potential pension costs for the taxpayers. 87/

Efforts have also been made to integrate the payment of benefits under public programs so that program management is more efficient. For example, under the Supplemental Security Income (SSI) programs, management efforts have been able to result in automatic cross-indexing of SSI records so they interface with benefit records under certain other programs -- like veterans, social security, and, eventually, civil service benefits. As a result, payment amounts tend to be more accurate.

There have also been efforts to consolidate the payment of cash benefits within the Social Security Administration. That agency was given the federal administrative responsibility for the AFDC program in 1977, and more recently, responsibility for the energy assistance payments for low-income people. The expertise that is gained in administering a variety of these large cash-benefit programs may well improve the overall management of each program.

Many private and some public pension plans now integrate benefits with social security but the impact of the particular formulas being used has drawn much controversy and those formulas are in need of reevaluation.

But these steps, which are important for what they accomplish, are really only a small part of the total effort that is required across the whole income

security sector. The administrators of the Social Security Administration already foresaw in the 1940s the need for integration and coordination of benefit programs. In the past 10 years, many different studies have recommended the same thing. But the goal has never really been realized in a systematic way. So the question before us is this: How can we make future progress where we have failed in the past?

CREATING A NEW INSTITUTIONAL FRAMEWORK

The answer is, in my judgment, to create a new institutional framework that will allow us to realize the goals of restructuring discussed above. Several new types of institutional arrangements have been suggested, which might have positive effects and are certainly worthy of serious consideration.

The GAO, as an outgrowth of the task force investigation of income security, recommended that Congress enact legislation to establish a national body, such as a National Income Security Commission, to provide central policy leadership for the income security system. 88/ The GAO suggested that Congress consider constituting the body as an independent entity. It should serve in an overall advisory capacity to the Congress and to the executive branch. It should have specific responsibility for standardizing program data and reporting requirements, for conducting and promoting research, and for similar duties. Its membership should be broad, representing government and private organizations and groups. The body should have a long-term, continuing charter, subject to periodic evaluation by the Congress.

This GAO proposal has several advantages. It would help to formulate a comprehensive view of the system, and to develop a set of national policies and priorities. It has a practical political advantage, as well, inasmuch as the creation of a separate advisory commission may be less threatening to the special interests and constituencies and bureaucracies who would react negatively to a reorganization of the system within the government. On the other hand, the proposal raises the possibility that the executive agencies, congressional committees, and the standing income security commission could nevertheless follow different courses. The advisory commission might lack adequate authority to provide policy leadership.

Another institutional framework would involve the creation of a Cabinet-level Department of Income Security. 89/ Such a department would provide a government-wide focus to build new policies and allow full accountability to the American people. A broadly constituted department could lead to the building of broader constituencies that would counteract the special interest forces that have surrounded our fragmented programs and fueled the expansion of social security. A department would alert many individuals and groups to the stake they have in these programs and multiply the constituencies to which these programs answer. Taxpayers, business organizations, and professional groups that to date have not had a significant influence on the shaping of income security policies could contribute to the process of reforming them.

An aspect of this proposal is that it would constitute, in terms of budget and personnel, a super-department, one that should perhaps be matched by other super-departments that would improve the President's management of the present cabinet system. Otherwise, if all the elements of income security were

to be pulled into one cabinet department as the executive branch is now organized, the income security department could dwarf all the other domestic departments.

Still another proposal in this direction is for the establishment of a single agency to administer the Employee Retirement Income Security Act, as a top priority step for the orderly development of a rational, national retirement policy. 90/ The agency, the Employee Benefit Administration, would take over the present ERISA-related responsibilities of the Labor Department, Internal Revenue Service, and Pension Benefit Guaranty Corporation. Such an agency might well be a major component of an income security department.

Another GAO proposal is to consolidate the numerous federal retirement plans, which vary substantially from category to category. These programs would also benefit from a unified administration.

The type of reorganization proposal that should definitely be avoided is any proposal that moves specific income security programs into a separate, privileged position. For example, the recommendation that social security be administered by some form of separate board, outside of the federal budget, would be a move altogether in the wrong direction. That would only serve to continue the trend of developing social security irrespective of other programs. It would run counter to the systems approach that is needed.

A basic issue in taking a systems approach is whether, and to what degree, policymaking functions should be exercised in the same agency along with administrative and regulatory functions. There are precedents for both kinds of

arrangements. Within the Department of Health and Human Services, for example, the Social Security Administration participates in policymaking and in administrative functions. By way of contrast, in the area of tax policy, the Treasury Department essentially formulates policy while the Internal Revenue Service performs the administrative functions. In the field of income security, we may wish to separate the policymaking functions from the administrative functions in order to devote more concerted attention to policy development.

But more important than the specifics of any proposal for institutional change, it is necessary to stress the likely advantages from taking a new conceptual approach to income security. A new institutional framework could communicate to the public what is at stake in the whole income security sector, not just the individual programs. It would encourage development of the necessary technical expertise and information base to better develop an integrated policy that makes sense analytically. It would open up the policymaking process and help the nation to better understand income security issues.

The nation needs to debate and decide what are the reasonable goals for adequacy of social insurance benefits, the equity of different benefit arrangements, and what the most effective vehicle is for achieving adequacy and equity.

In the process of developing new national policies, there would be the opportunity to dispose of the traditional myths and taboos that have grown up around these various programs and that have become counterproductive because they discourage new ways of thinking about income security issues.

In the process of developing new national policies, a reassessment of the role of governmental responsibility could take place. Up until now, the trend has been for increasing governmental dominance of the income security system, overshadowing private efforts. We need to debate and consider whether that process of federalization of responsibility has gone too far, and whether it is not more appropriate to more fully engage the participation of the private sector in providing income security.

The present system has contributed towards a displacement of responsibility in the public mind. Increasingly, the government is viewed as being responsible in this area, even though these programs are financed by tax levies upon the private sector, and the problems that government programs attempt to alleviate are the problems that seriously affect all citizens. A greater participation of the private sector in income security policy might help to educate the public that income security is less an activity of the federal government than it is a national need for which we, as a nation, have a collective responsibility and each person as an individual has a personal responsibility. Somehow we need to move back to the realities of a democratic system: that it is the public, and not civil servants, who really should shape income security policy and programs.

CONCLUSION

The national income security programs that we have in the United States today essentially began about 50 years ago, as a new stage in our history. The various programs that comprise the income security sector developed separately, as legislative responses at particular moments to very important and specific needs. In the past 15 years, especially, our national income security efforts took a quantum leap. An explosion of new program provisions and expenditures has magnified the level of our national efforts; but it has also magnified the deficiencies in our developing income security system.

After 50 years, the merits and the disadvantages of earlier decisions need to be assessed. Despite massive, unprecedented improvements in the level of income support for many people, especially the aged, the disabled, their survivors, and the poor, today's system is riddled with inefficiencies and inequities. As a result, some important human needs go unsatisfied, while some get far more than they need or deserve.

This dilemma will become all the more acute as we move toward the future, when much larger demands will be placed upon the income security system, in part because of the aging of our population. As we face that new era, and try to devise better policies, it is important to remember that the approaches adopted in the past are not sacrosanct. They were _ad hoc_ attempts to respond to public needs for income security at specific historical moments. These policies should now be evaluated and changed based on their soundness in a new and vastly different era.

The time has come to rethink the traditional philosophies of income security in light of the new circumstances. We must recognize that we have entered a new period, one in which we can no longer afford to allow income security programs to develop separately and haphazardly, without relation to the broader goals of the whole system.

New institutional mechanisms must be created that will encourage the nation to shape comprehensive policies. In the process, more attention must be paid to the need for imaginative new combinations of public and private efforts to correct the present deficiencies and improve the effectiveness of the existing income security system. Above all, we need to find ways that will strengthen the involvement of individuals in their own economic security, and increase the participation of the private sector generally in the formulation and the realization of national income security goals.

A comprehensive review of our entire income security system is not only necessary; it is urgent. Numerous components of the system are facing critical financial problems. Reform efforts in many areas have been protracted and unsuccessful. Delays in responding to these problems will make matters worse, not better, and could possibly result in serious, even explosive public issues. Numerous income security "time bombs" are now ticking away throughout this vast and complex sector of our society.

We must muster the will and the courage to look at the system as a whole and make the adjustments that are required. We have the capacity to construct a system that is more responsive to human needs and more equitable to all concerned.

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